

**SECTION THREE**

**BENEFITS OF THE JSEPA**

## SECTION THREE – BENEFITS OF THE JSEPA

1. Section Two described the possible scope of the JSEPA and elaborated on the benefits that could be derived from the proposed initiatives under the JSEPA. This section sums up the broader strategic and economic considerations for, and benefits of the JSEPA.

### **STRENGTHENING EXISTING TIES**

2. Japan and Singapore share strong economic ties.
  - a. In 1999, Japan was Singapore's third largest trading partner whilst Singapore was Japan's ninth largest. Since the 1980s, Japan has consistently been one of Singapore's top three trading partners.
  - b. Singapore provides a base for Japanese companies going into the Southeast Asian markets. Today, Japanese cumulative investment in Singapore exceeds S\$20 billion. Singapore is also home to more than 1,500 Japanese companies and 26,000 Japanese expatriates.
  - c. Both countries are active participants of major economic organisations and fora such as the WTO and APEC. In particular, we have been working together towards the launch of a New Round of multilateral trade negotiations at the WTO.

Table 1: Singapore's External Trade<sup>1</sup>

	1999 (S\$ thousand)			
	Export		Import	
1	United States	37,214,764	United States	32,044,195
2	Malaysia	32,163,680	<b>Japan</b>	<b>31,324,732</b>
3	Hong Kong, China	14,915,223	Malaysia	29,282,994
4	<b>Japan</b>	<b>14,420,742</b>	China, PR	9,648,869
5	Chinese Taipei	9,477,271	Thailand	8,889,445
6	Thailand	8,535,940	Chinese Taipei	7,540,243
7	United Kingdom	7,246,824	Korea	7,063,446
8	China, PR	6,642,732	Germany	6,111,381
9	Netherlands	6,536,492	Saudi Arabia	5,535,732
10	Korea	6,027,265	Hong Kong, China	5,400,235
11	Germany	5,521,675	Philippines	4,974,135
12	Australia	5,373,351	United Kingdom	4,622,975
13	Philippines	4,795,026	France	4,397,251
14	India	4,243,316	Switzerland	2,892,854
15	France	3,708,806	Australia	2,464,018

<sup>1</sup> Source: Official Statistics, Singapore

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Table 2: Japan's Trade Relationship<sup>2</sup>

	1999 (¥ million)			
	Export		Import	
1	United States	14,605,315	United States	7,639,510
2	Chinese Taipei	3,276,252	China, PR	4,875,385
3	China, PR	2,657,428	Korea	1,824,286
4	Korea	2,606,234	Australia	1,456,995
5	Hong Kong, China	2,507,213	Chinese Taipei	1,455,915
6	Germany	2,121,636	Indonesia	1,429,002
7	<b>Singapore</b>	<b>1,854,167</b>	Germany	1,307,034
8	United Kingdom	1,616,321	Malaysia	1,241,390
9	Netherlands	1,367,273	Thailand	1,008,226
10	Thailand	1,284,801	United Arab Emirates	1,001,012
11	Malaysia	1,264,899	Saudi Arabia	944,329
12	Philippines	996,864	Canada	900,255
13	Australia	961,664	France	699,010
14	France	775,761	United Kingdom	674,111
15	Panama	775,249	<b>Singapore</b>	<b>618,188</b>

Table 3: Japan's Outward and Inward Direct Investment<sup>3</sup>

Stock of Direct Investment (US\$ million)					
Outward (end of 1998)			Inward (end of 1998)		
1	United States	111,109	1	United States	14,653
2	United Kingdom	24,801	2	Germany	2,023
3	China, PR	17,912	3	Switzerland	1,553
4	Indonesia	11,543	4	Netherlands	1,385
5	<b>Singapore</b>	<b>9,495</b>	5	United Kingdom	1,367
6	Netherlands	9,283	6	Chinese Taipei	1,246
7	Hong Kong, China	9,212	7	Hong Kong, China	854
8	Australia	5,299	8	Canada	668
9	Thailand	4,711	9	France	338
10	Brazil	5,299	10	Sweden	309
11	Germany	4,711	11	<b>Singapore</b>	<b>229</b>
12	Malaysia	4,438	12	Australia	178

3. Both countries also enjoy strong political relations, with regular exchange of visits between our political leaders and officials. These relations were enhanced during the Asian financial crisis when Japan and Singapore worked closely to help restore economic stability in the region. Both countries actively explored ways to jointly extend financial assistance and other support to countries affected by the crisis.

4. The frequency of consultation between our political leaders and officials has increased significantly since the Asian financial crisis. This momentum continues today. Japanese delegations visiting the region

<sup>2</sup> Source: Official Statistics, Japan

<sup>3</sup> Source: JETRO: "JETRO Foreign Investment Report 2000"

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have made it a point to include Singapore in their itinerary to exchange views with Singapore leaders on regional developments.

5. The JSEPA would entrench our close ties and build further upon them. It is a natural development of our bilateral relationship.

### **CREATING NEW OPPORTUNITIES**

6. The JSEPA is, however, not only about strengthening existing ties between Japan and Singapore. The JSEPA, as envisaged in the preceding section of this report, also explores areas of economic liberalisation, facilitation and cooperation which would be mutually beneficial and which would create new opportunities for both countries. The integration of the Japanese and Singapore markets and related cooperation in new growth sectors would not only create larger markets, but new markets as well. This would in turn offer more wide-ranging choices for consumers in Japan and Singapore. It would also institutionalise regulatory reforms in both countries, enabling Japan and Singapore to stay attractive to capital and talent.

7. In particular, because Japan and Singapore are among the more developed economies in Asia, and are at roughly similar levels of economic development (Tables 4 and 5), the JSEPA would easily enable both countries to exploit new opportunities arising from the rapid development of information and communications technology, the Internet and electronic commerce. It would allow both countries to take a leadership role in Asia in these sectors.

Table 4: GNP per capita in 1998 (US\$)<sup>4</sup>

1	Luxembourg	45,100	11	Sweden	25,580
2	Switzerland	39,980	12	Belgium	25,380
3	Norway	34,310	13	Netherlands	24,780
4	Denmark	33,040	14	Finland	24,280
5	<b>Japan</b>	<b>32,350</b>	15	France	24,210
6	<b>Singapore</b>	<b>30,170</b>	16	Hong Kong, China	23,660
7	United States	29,240	17	United Kingdom	21,410
8	Iceland	27,830	18	Australia	20,640
9	Austria	26,830	19	Italy	20,090
10	Germany	26,570	20	Canada	19,170

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<sup>4</sup> Source: World Bank: "World Bank Atlas 2000"

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Table 5: Science and technology indicators

Number of researchers, scientists and engineers <sup>5</sup>	Per 10,000 workers	Gross expenditure on R&D <sup>6</sup>	% GDP	Connection to Internet <sup>7</sup>	No. of hosts per 1000 people
<b>Japan</b>	111.1	<b>Japan</b>	3.1	<b>Singapore</b>	22.19
Chinese Taipei	87.2	Korea	2.6	Chinese Taipei	20.04
<b>Singapore</b>	65.5	Chinese Taipei	2.0	<b>Japan</b>	16.65
Korea	62.3	<b>Singapore</b>	1.8	Korea	6.03
Malaysia	10.2	Malaysia	0.2	Malaysia	2.80
Philippines	3.8	Thailand	0.2	Thailand	0.49
Indonesia	2.8	Indonesia	0.2	Philippines	0.23
Thailand	2.1	Philippines	0.1	Indonesia	0.18

8. The Joint Study Group also recognised that bilateral economic integration under the JSEPA would reduce business costs and promote competition, thereby improving economic efficiency and consumer welfare. It would enhance the attractiveness and vibrancy of our markets, and invite greater investments. It would lead to trade expansion not only between the two countries but also at the regional and global levels.

9. Broadly, the JSEPA seeks to create these new opportunities through (i) liberalisation, (ii) facilitation, and (iii) cooperation.

### Liberalisation

10. Given that Japan and Singapore already maintain low tariff regimes, expansion of trade in goods through tariff liberalisation would be modest, as with other recent FTAs, including NAFTA.

11. However, the JSEPA would go beyond tariff liberalisation. Its focus would be more encompassing, including the lowering of unnecessary barriers to trade and freer movement of goods, services, investment, information and people. These benefits, though difficult to quantify through macro-economic model analyses, would be sizeable and would substantially improve economic welfare in both countries.

<sup>5</sup> Official sources

<sup>6</sup> Official sources

<sup>7</sup> Source: "World Competitiveness Yearbook 2000"

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12. In particular, considerable trade expansion can be expected from bilateral liberalisation in a broad range of pivotal services sectors. Services constitute a vital component of Japan's and Singapore's economies. Mobility of people and liberalisation of professional services would also contribute to significant trade expansion between the two countries.

13. Investment is another area which the JSEPA would address. Notwithstanding the fact that the two countries already have an open and liberal investment regime, the establishment of a legal framework governing the rights and obligations of the Japanese and Singapore governments and investors would further improve the investing environment.

### Facilitation

14. The harmonisation and convergence of rules, standards, procedures and business practices of both countries under the JSEPA would afford. They would greatly facilitate bilateral trade and greater convenience and certainty to the private sector investments. In particular, the JSEPA would endeavour to put in place a WTO-plus model, ahead of the current developments in the multilateral trading system, for harmonising regulations and procedures pertaining to e-commerce, customs clearance, product testing and certification, settlement of commercial disputes and competition policy.

15. Electronic commerce is an increasingly important and integral part of our economies. Benefits arising from advances in and the use of electronic commerce are expected to permeate throughout both economies. The development of common rules for protecting private data, using electronic signatures and contracts, enforcing against computer crimes etc, would not only help markets function better but would facilitate the development of new businesses. This in turn would bolster economic growth and promote technological innovation in Japan and Singapore. Furthermore, the bilateral harmonisation of standards in e-commerce under the JSEPA would be a positive step towards the creation of new regional and global standards in this area.

16. The introduction of an electronic system for customs procedures and the transfer of trade documents between importers and exporters in Japan and Singapore would enable faster processing of import and export formalities, and lead to substantial reduction in business costs.

17. Establishing mutual recognition agreements would facilitate bilateral trade between Japan and Singapore. First, it would remove duplicative testing and certification procedures and thus shorten the time

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needed for products to reach the markets. Secondly, it would lead to the harmonisation of standards of products, thereby improving the efficiency of industrial production. This would translate into reduced business costs and increased consumer welfare for both countries.

18. The setting up of alternative dispute resolution mechanisms would aid businesses in settling their disputes in a more efficient and cost-effective manner.

19. Besides adding to the increased transparency and clarity of the business environment, a framework on competition policy would also help to deal with anti-competitive practices that may adversely affect trade between the two countries.

20. These are but some examples of trade and investment facilitation initiatives under the JSEPA that could bring significant benefits to the private sectors of Japan and Singapore.

### Cooperation

21. Besides liberalisation and facilitation measures, the Joint Study Group proposed that the JSEPA also include cooperation initiatives in many diverse areas such as financial services, information and communications technology, science and technology, human capital development, media and broadcasting, development of SMEs, tourism, postal services and transport.

22. The financial sector cooperation initiatives proposed under the JSEPA would augment the attraction of Japan's and Singapore's financial markets, offering businesses a larger number of fund raising alternatives. Investors would enjoy an improved environment for investments. The JSEPA would also provide a useful framework for enhanced regulatory cooperation to meet the new challenges posed by emerging market developments and improve the market infrastructure in both countries. Since Tokyo and Singapore are two major financial centres in the region, the strong ties between the two financial markets would contribute to the establishment of liquid, sound and reliable financial markets built on fair and transparent rules.

23. Financial markets and institutions can only thrive on confidence. The JSEPA covering financial services trade liberalisation backed by regulatory cooperation helps to build that confidence. The Asian financial crisis has proved that international capital flows can easily and quickly be reversed if there is loss of confidence. Strengthening the financial systems of the two countries would be one of the greatest benefits of the JSEPA. The proposed cooperation in the financial sector may also lead to the expansion of the use of the yen in regional and global markets.

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24. In the area of information and communication (infocomms) services, the cooperation initiatives under the JSEPA would serve to enhance the security of the communications infrastructure, improve the legal and regulatory certainty for electronic transactions, ensure effective management of competition in the infocomms sector and promote the development of e-Governments. Significantly, these various cooperation initiatives could serve as a model and spur the growth of e-commerce in the region.

25. The proposed initiatives in science and technology under the JSEPA are a welcome addition to the ongoing collaboration between Japan and Singapore. Joint efforts to develop a robust framework to protect and promote the use of intellectual property, to identify and invest in start-ups in the region, and to undertake research in the life sciences, would enable Japan and Singapore to more effectively leverage on new innovations.

26. The business communities of Japan and Singapore have had a long history of successful economic cooperation. The JSEPA would further promote business partnerships, especially between Japan and Singapore SMEs and start-ups, which are keen to expand into each other's markets and region.

27. The JSEPA would also help to develop the human capital of both countries as well as that of regional countries, through joint third country programmes, working holiday schemes, and exchanges between educational institutes, professional bodies and government agencies.

28. Furthermore, the tourism and transport industries of Japan and Singapore would benefit from the proposed initiatives under the JSEPA to promote new tourist destinations in the region and to facilitate international investments in tourism projects.

29. It should also be noted that these liberalisation, facilitation and cooperation initiatives would impose greater discipline on the governments of Japan and Singapore to reform the less competitive elements of their economies. They would enable both countries to acquire more rapidly the competencies required in the knowledge-based economy.

### **STRENGTHENING THE MULTILATERAL TRADING SYSTEM**

30. The JSEPA would play a strong complementary role to the efforts of the multilateral trading system, especially in the areas of trade in services and non-tariff measures. It provides a platform for Japan and Singapore to accelerate beyond current WTO developments and work

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towards conceptual model frameworks, especially for the following areas where either there are no rules yet in the WTO or the existing WTO rules can be further improved upon:

- a. electronic commerce;
- b. definition of service providers;
- c. non-tariff measures;
- d. investment;
- e. mutual recognition;
- f. anti-dumping; and
- g. consultation and dispute settlement.

### **STRENGTHENING JAPAN'S ENGAGEMENT IN SOUTHEAST ASIA**

31. The JSEPA would not only have a direct impact on our bilateral relationship, but would also strengthen Japan's involvement in and commitment to Southeast Asia for the long term, to the benefit of both Japan and the ASEAN countries.

32. Singapore is an integral member of the ASEAN community. Many Japanese companies use Singapore as the gateway to Southeast Asia. Singapore also serves as a hub and a base for the regional operations of many Japanese companies. ASEAN, with a population of about 500 million people, would continue to be an important market for Japanese products and services and as a manufacturing base for global sales. The JSEPA would enable Japan to anchor its foothold in the region and benefit from the potential of the region in the face of the rapidly changing economic environment in Asia. In turn, Singapore's position as a regional goods and services hub would be enhanced.

33. The rest of Southeast Asia would also benefit from Japan's enhanced engagement in the region. Japan has been, and would continue to be, an important source of investments, capital and technology, and a major export market for ASEAN countries. Prior to the Asian financial crisis, Japanese investments contributed significantly to the growth of regional economies. When the crisis struck, Japan offered much assistance to help the recovery of Southeast Asian countries. In fact, there is positive correlation between the recovery of Japan's production levels and ASEAN's exports to Japan (which comprised mainly ICT-related goods and parts), and the recovery of ASEAN's production levels and Japan's exports of capital goods and parts to

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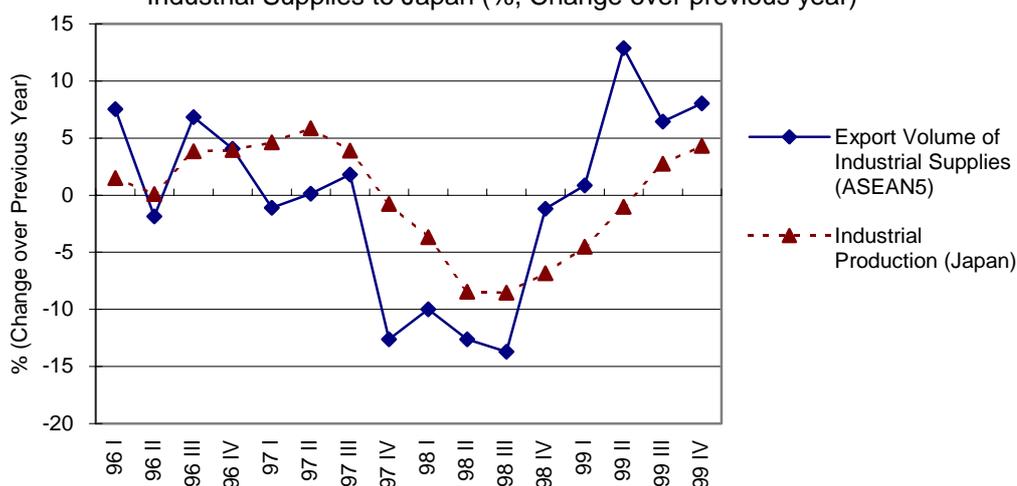
ASEAN. (See Charts 1 and 2.) These recoveries in production levels and intra-regional trade exerted strong locomotive effects on each other.

34. With the increased competition in the region, Japan's economic strength would once again be a source of stability and confidence for ASEAN. (See Tables 6-8.)

Table 6: Japan's Investment into ASEAN-5 (in US\$ million)<sup>8</sup>

	1980	1985	1990	1995	1998
<b>ASEAN-5</b>	926	936	4,082	5,538	4,027
<b>Indonesia</b>	529	408	1,105	1,605	1,076
<b>Malaysia</b>	146	79	725	575	514
<b>Philippines</b>	78	61	258	718	379
<b>Singapore</b>	140	339	840	1,400	687
<b>Thailand</b>	33	48	1,154	1,240	1,371

Chart 1: Correlation between Japan's Industrial Production and ASEAN-5's Export of Industrial Supplies to Japan (% Change over previous year)<sup>5</sup>



<sup>8</sup> Source: Institute of Fiscal and Monetary Policy, Ministry of Finance/Financial Statistics of Japan

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Chart 2: Correlation between ASEAN-5's Production and Japan's Export of Parts to ASEAN-5 (% Change over previous year)<sup>6</sup>

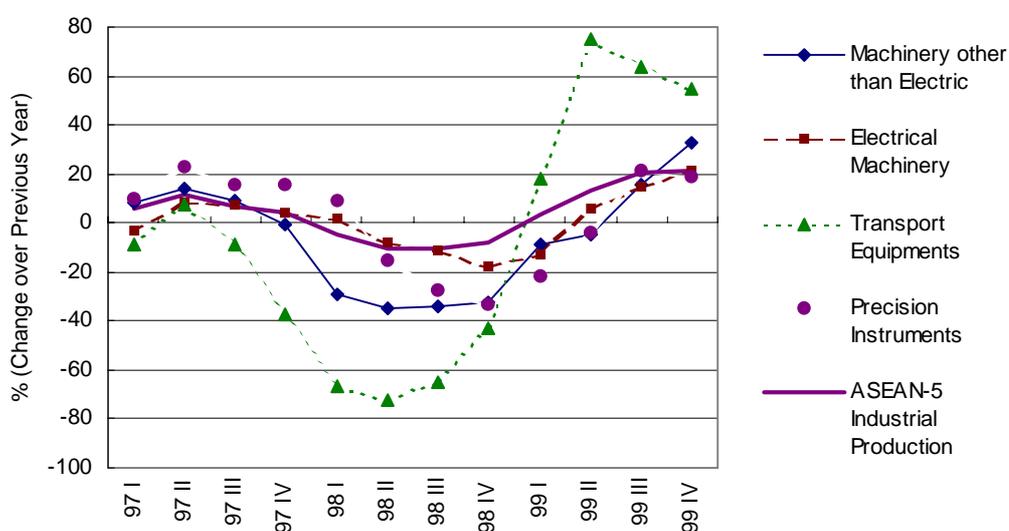


Table 7: ASEAN-5's Trade with Japan (as % of each ASEAN-5 country's total trade)<sup>9</sup>

	1985	1990	1995	1997	1998	1999
<b>ASEAN-5</b>	21.4	21.4	19.6	17.2	14.7	16.9
<b>Indonesia</b>	37.3	34.5	25.8	22.1	18.8	23.3
<b>Malaysia</b>	23.8	19.7	20.1	17.4	14.6	15.5
<b>Philippines</b>	16.1	19.7	20.6	23.2	17.4	20.5
<b>Singapore</b>	13.9	15.1	14.6	12.5	11.3	13.0
<b>Thailand</b>	20.8	25.0	23.8	20.6	17.9	20.3

Table 8: Japan's Trade with ASEAN-5 (as % of Japan's total trade)<sup>10</sup>

	1985	1990	1995	1997	1998	1999
<b>ASEAN-5</b>	6.7	10.9	16.5	14.5	12.5	14.1
<b>Indonesia</b>	2.1	2.9	2.9	2.5	2.2	2.5
<b>Malaysia</b>	1.4	2.0	3.9	3.4	2.8	3.2
<b>Philippines</b>	0.4	0.7	1.2	1.7	1.5	1.9
<b>Singapore</b>	1.6	2.9	4.6	4.1	3.7	3.9
<b>Thailand</b>	1.1	2.6	4.0	2.8	2.3	2.6

35. Both Japan and Singapore are already actively cooperating and contributing in their respective ways to promote greater economic and socio-political stability in the ASEAN region. The JSEPA would add to the momentum and quality of the overall cooperation.

<sup>9</sup> Source: IMF and Official sources

<sup>10</sup> Source: IMF and Official sources

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### **FORGING SINGAPORE’S TIES WITH NORTHEAST ASIA**

36. Likewise, the JSEPA would offer opportunities for Singapore to enhance its access to the Northeast Asian markets and strengthen its position as a node in the global economy. It would considerably expand Singapore’s trade and investment flows with the major Northeast Asian countries. (See Tables 9 and 10.)

Table 9: Singapore’s Trade with Northeast Asia (S\$ billion)<sup>11</sup>

	<b>1980</b>	<b>1985</b>	<b>1990</b>	<b>1995</b>	<b>1999</b>
<b>China</b>	19.2	5.7	5.2	9.6	16.3
<b>Japan</b>	12.5	14.6	30.5	50.4	45.7
<b>Korea</b>	1.6	5.3	5.3	12.2	13.1

Table 10: Singapore’s Investment Flows into Northeast Asian markets (S\$ million)<sup>12</sup>

	<b>1995</b>	<b>1996</b>	<b>1997</b>
<b>China</b>	3,718.1	6,414.1	10,476.9
<b>Japan</b>	481.9	454.9	563.1
<b>Korea</b>	147.1	258.7	210.7

### **PROMOTING REGIONAL ECONOMIC INTEGRATION**

37. The JSEPA could be a catalyst to stimulate further regional integration of markets, particularly in new growth areas. This could contribute to the strengthening of the economic resilience and stability of the region and its nations.

38. Japan and Singapore are both important constituents of a new vision for Asia. They are well positioned to forge a “New Age” economic partnership agreement (EPA) as an example to others in Asia similarly grappling with the paradigm change brought about by technological advances and globalisation.

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<sup>11</sup> Source: Trade Development Board

<sup>12</sup> Source: Department of Statistics, Singapore